

TENNESSEE EDUCATION LOTTERY CORPORATION
Funding Board
December 3, 2008

ESTIMATION OF
TOTAL AND NET LOTTERY PROCEEDS
FOR FISCAL YEARS ENDING
JUNE 30, 2009 and 2010

**TENNESSEE EDUCATION LOTTERY CORPORATION
ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS
FOR FISCAL YEAR ENDING JUNE 30, 2009**

	Actuals as of 10/31/08	November 2008 Updated Projections for Fiscal Year 2009	Actuals Fiscal Year 2008
Gross Revenues	\$336,006,000	\$1,102,149,000	\$1,064,960,000
Total Proceeds	\$314,766,000	\$1,030,056,000	\$996,573,000
Expenses:			
Direct Expenses:			
Prize Winnings	\$ 190,586,000	\$ 626,980,000	\$ 602,283,000
Retailer commissions	21,928,000	71,950,000	69,568,000
Vendor Fees	6,758,000	22,287,000	21,352,000
Non Direct Expenses	9,539,000	32,781,000	30,954,000
Total Expenses	\$ 228,811,000	\$ 753,998,000	\$ 724,157,000
Lottery for Education Account	\$ 85,955,000	\$ 276,058,000	\$ 272,416,000
After-School Programs Special Account	\$ 5,124,000	\$ 12,500,000	\$ 13,724,000
Total Education Funding	\$ 91,079,000	\$ 288,558,000	\$ 286,140,000

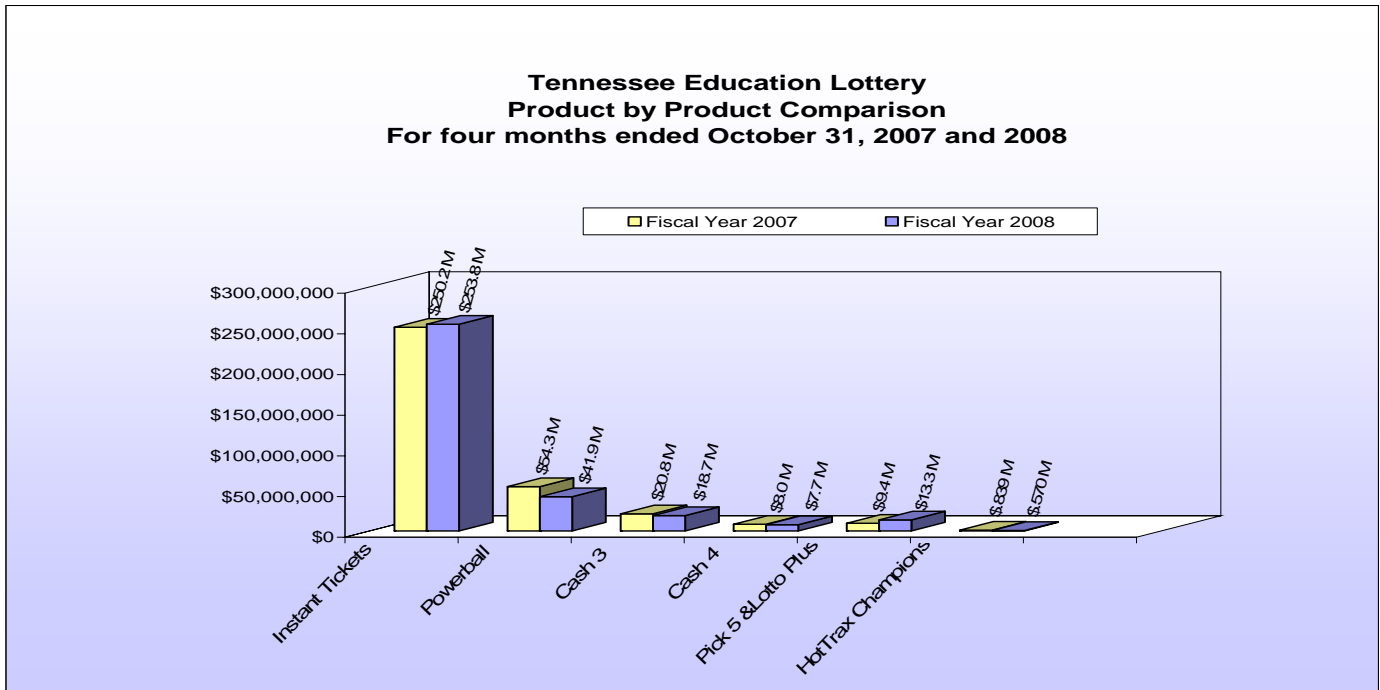
SUMMARY INFORMATION:

Fiscal Year 2009 as of October 31, 2008

Gross Sales:

* **\$336.0 Million as of October 31, 2008**
Weekly Average of \$19.1 Million

* **\$343.6 Million as of October 31, 2007**
Weekly Average of \$19.5 Million



Lottery for Education Proceeds

- \$85.9 million as of 10/31/08 27 % of Total Proceeds
- \$89.8 million as of 10/31/07 28 % of Total Proceeds

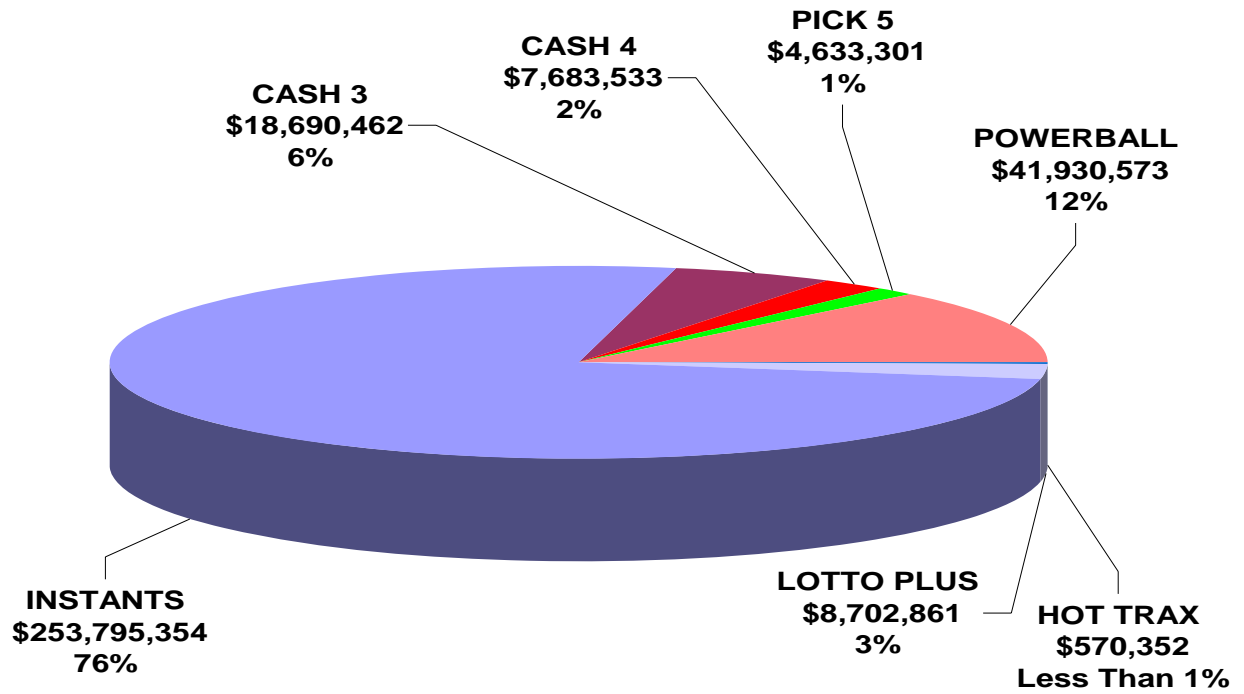
After-School Program Proceeds

- Represents actual/realized unclaimed monies
- \$5.1 million as of 10/31/08
- \$2.5 million as of 10/31/07

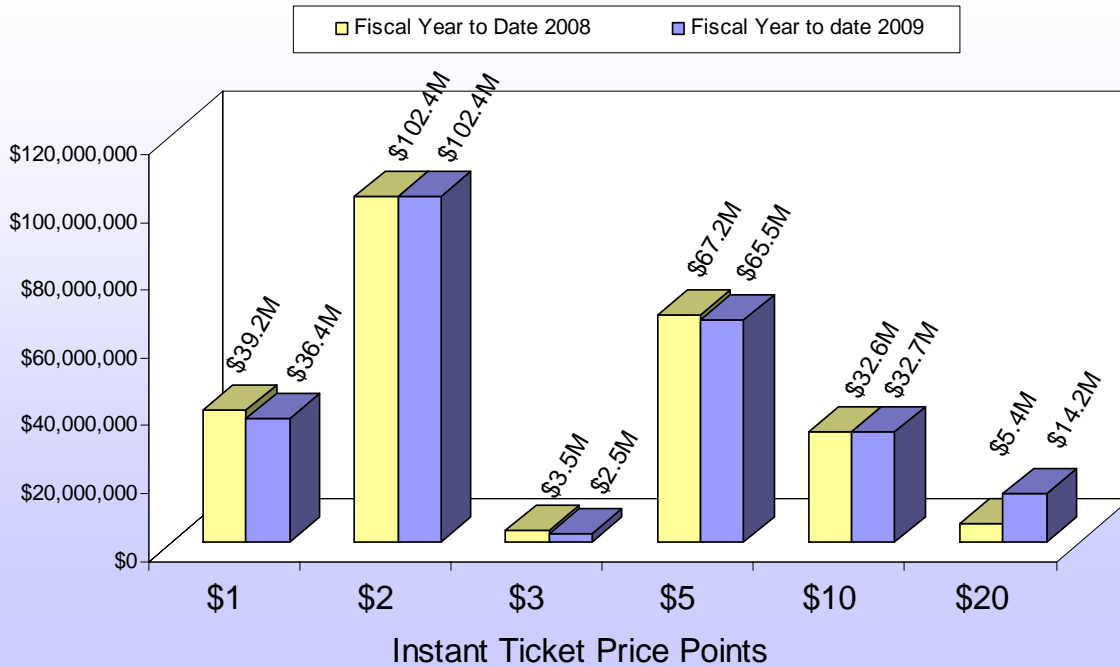
Total Education Proceeds

- \$91.0 million as of 10/31/08
- \$92.3 million as of 10/31/07

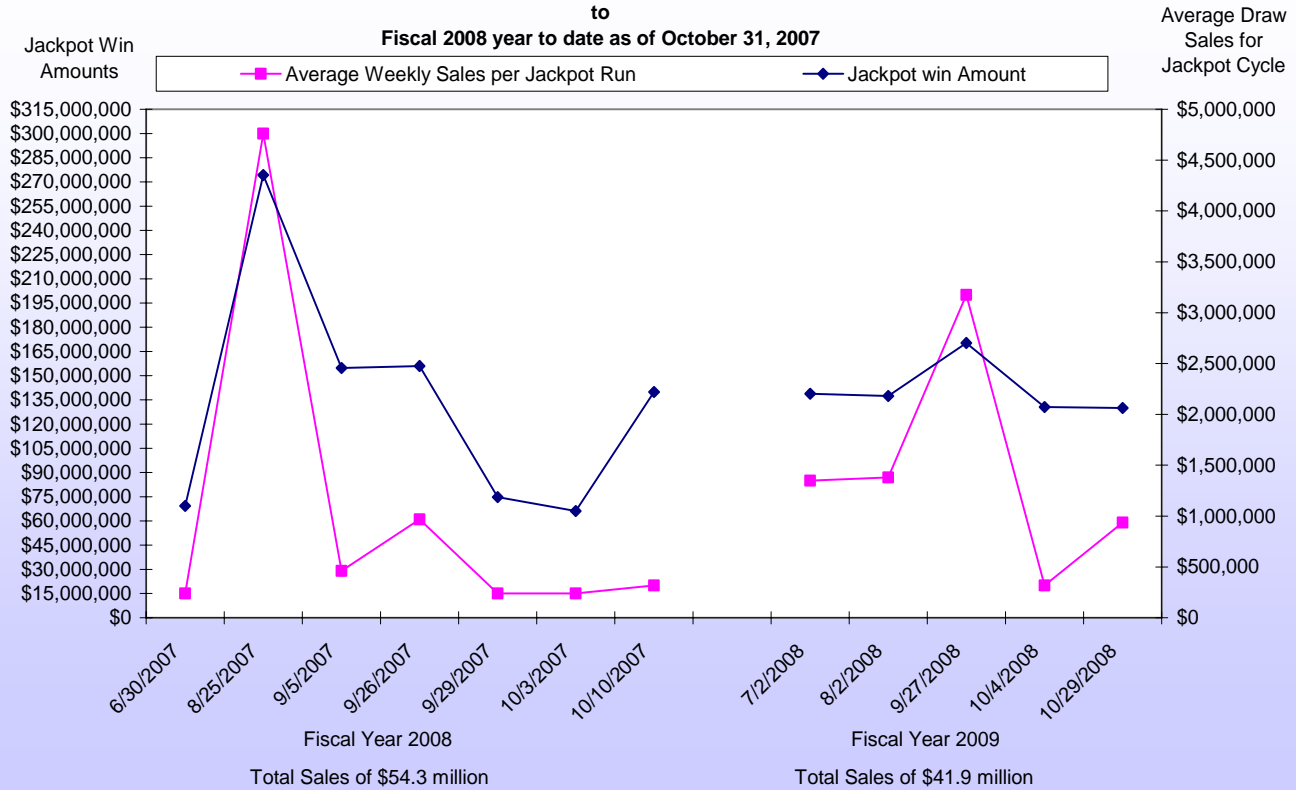
**TENNESSEE EDUCATION LOTTERY CORPORATION
SALES BY PRODUCT
FOR THE FISCAL YEAR TO DATE AS OF OCTOBER 31, 2008**



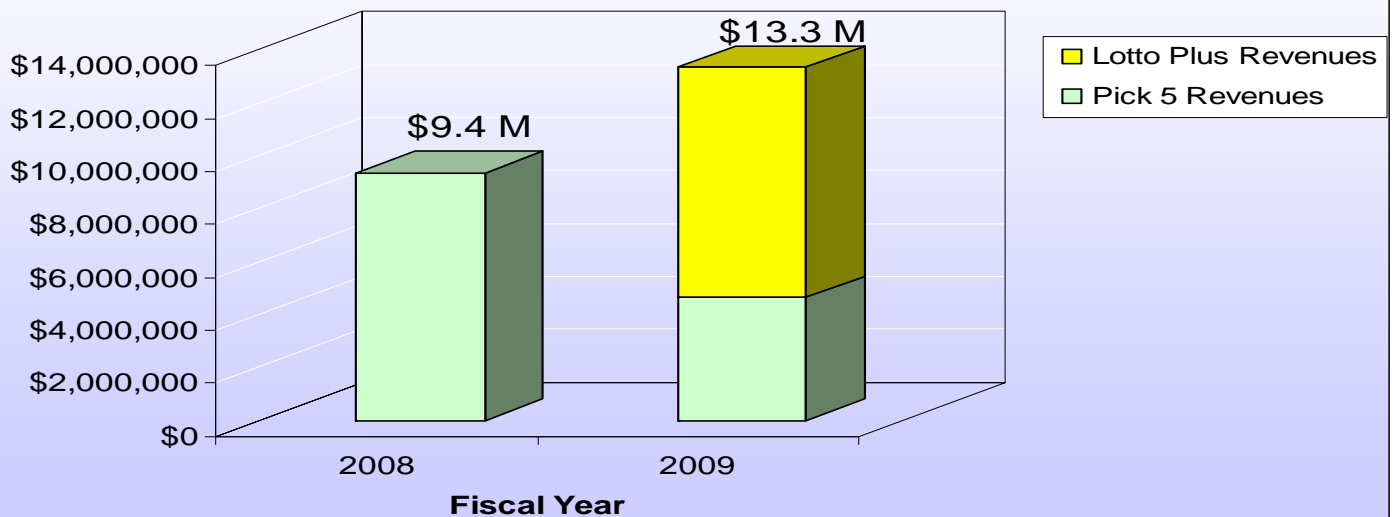
**Gross Instant Ticket Sales Comparison by Price Point
For four months ended October 31, 2007 and 2008**



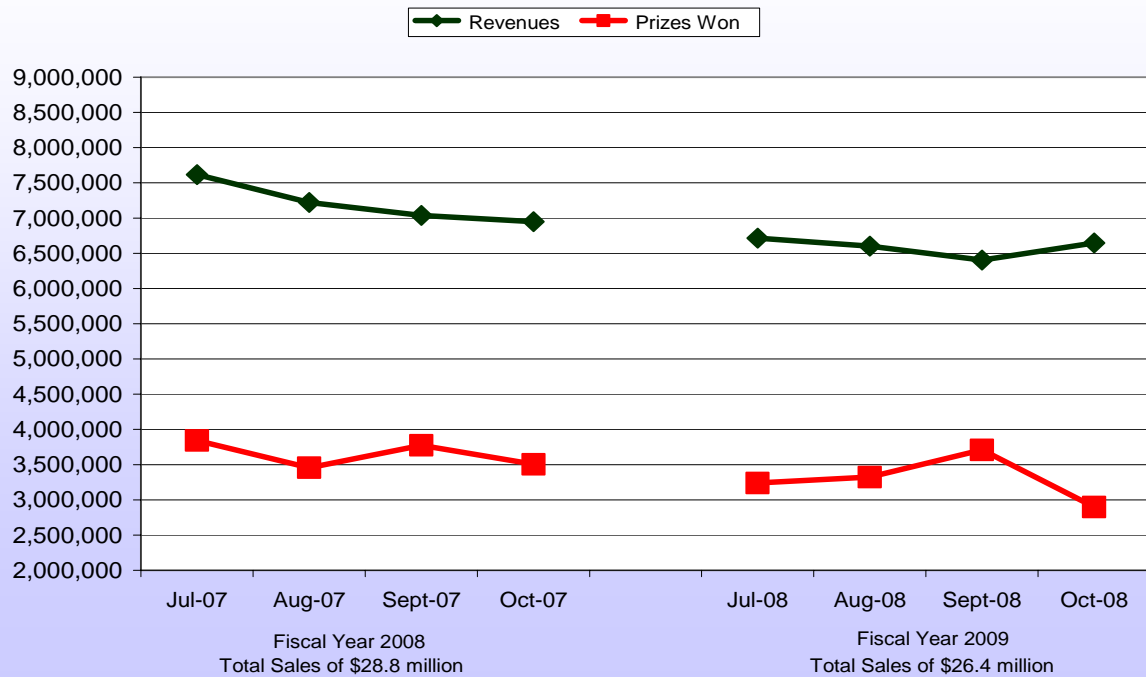
Tennessee Education Lottery
Comparison of Powerball Jackpots to Powerball Sales
for
Fiscal 2009 year to date as of October 31, 2008
to
Fiscal 2008 year to date as of October 31, 2007



Tennessee Education Lottery
Combined Gross Revenues for Pick 5 and Lotto Plus
Fiscal Year to date as of October 31, 2008
Compared to
Fiscal Year to date as of October 31, 2007



Tennessee Education Lottery **Comparing Cash 3 and Cash 4 Revenues to Prizes Won** **July - Oct Fiscal Year 2008 & Fiscal Year 2009**



FISCAL YEAR 2009 ESTIMATES

	Updated November 2008	Original May 2008
Gross Revenues	\$1.097- \$1.107 billion	\$1.111 billion
➤ Instant Games	75 % of Gross Sales Estimate	73 % of Gross Estimate
➤ Powerball	14 % of Gross Sales Estimate	14 % of Gross Estimate
➤ CASH3 and CASH4	8 % of Gross Sales Estimate	8 % of Gross Estimate
➤ Pick 5 & Lotto Plus	3 % of Gross Sales Estimate	5 % of Gross Estimate

Lottery for Education Proceeds:	Updated November 2008	Original May 2008
	\$274.9 - \$277.9 million	\$279.5 million
<ul style="list-style-type: none"> • Represents 27 % of estimated total lottery proceeds • Represents 1 % projected growth over the prior fiscal year 		

After-School Program Proceeds:	Updated November 2008	Original May 2008
	\$12.5 million	\$12.5 million
<ul style="list-style-type: none"> • Represents actual/realized unclaimed monies expected from closed instant games and expired online draw periods. Historically, this amount averages approximately 2% of the projected prize expense. 		

Significant Factors Impacting Projections:

Instant Games

- Sales as of October 31, 2008 averaged \$14.5 million a week. For the Fiscal Year 2008, instant sales during this period represented 31% of total instant fiscal year sales.
- Currently, prize payout is projected at 65.5 %, which is relatively consistent to Fiscal Year 2008.
- *Play it Again* TEL's second chance program continues to extend the sale period for Instant Tickets.

Powerball

- Sales are impacted by size of jackpots.
- Game design supports two (2) jackpots in \$150-200 million range and one (1) in \$250+ million range within a fiscal year.
- Current game design expects an average jackpot cycle to \$97 million.
- As of October 31, 2008, we have experienced one (1) jackpot cycle of \$200 million compared to one (1) \$300 million jackpot in the prior year which attributes to the lower sales for the current period compared to the prior period.
- Several factors are expected to impact Powerball projections for Fiscal Year 2009:
 - The entrance of Florida in January 2009. More players will allow the jackpot to grow more quickly.
 - A matrix change in January 2009, which is projected to increase the average jackpot win to \$147 million compared to the current average jackpot win of \$97 million.
 - A payout change for matching 5 of 5 numbers will now be a \$ 1 million prize, when the player selects the PowerPlay option.

Cash 3 and Cash 4

- For Fiscal Year 2009 Cash 3 and Cash 4 sales are expected to slightly exceed the prior fiscal year.
- Attributing to the expected Fiscal Year 2009 sales are two promotions planned in the second and third quarters to improve player awareness and promote new features:
 - More Money Fridays – increases the Cash 3 payouts by 20% during select months of Fiscal Year 2009.
 - Lucky Sum – This add-on play feature to the base games will give players an opportunity to win if the sum of the numbers they choose for the drawing matches the sum of the winning numbers drawn. This promotion is currently planned to run from December 2008 through March 2009. This play feature will require an additional cost to the base play amount, resulting in projected incremental sales.

Lotto Plus and Pick 5

- The Lotto Plus jackpot starts at \$1 million and is currently at \$10.3 million for the December 2, 2008 drawing.
- While the Pick 5 sales are down from the prior year, both products combined are projected to provide a 10 to 15% increase over Fiscal Year 2008.

HotTrax Champions

- The game will be discontinued on December 31, 2008 due to declining sales and limited retailer support.

Operational Enhancements

- The corporation implemented a retailer recruitment and retention program in Fiscal Year 2009. We anticipate this initiative will add approximately 2% (approximately 85) new retailers to our distribution and sales network.
- The TEL will continue to implement its promotional offerings to improve brand awareness and increase player participation in our online games.

Direct Gaming-Related Expenses

- Aggregate Prize Expense for Instant Games estimated at **65.5%**
- Aggregate Prize Expense for Online Games estimated at **50.0%**
- Retailer sales commissions are **6.5%** of gross sales
- Gaming vendors' fees are a percentage of sales per the terms of each contract. The percentages are approximately 2.3% on instant tickets and 1.2% for online games.

Non-Direct Expenses

- Advertising is estimated at \$12.0 million, or 1.1% of estimated gross sales
- Other Gaming is estimated at \$ 4.7 million, or 0.4% of estimated gross sales
- General and Administrative is estimated at \$16.1 million, or 1.5% of estimated gross sales

TENNESSEE EDUCATION LOTTERY CORPORATION ESTIMATION OF TOTAL AND NET LOTTERY PROCEEDS FOR FISCAL YEAR ENDING JUNE 30, 2010

	November 2008 Updated Projected Fiscal Year 2010
Gross Revenues	\$1.097 - \$1.107 Billion
Total Proceeds	\$1.025 - \$1.035 Billion
Lottery for Education Account	\$274.9 - \$277.9 Million
After-School Programs Special Account	\$12.5 Million
Total Education Funding	\$287.4 - \$290.4 Million

Due to the current economic climate, we can not at this point provide reliable estimates for Fiscal Year 2010.

We recommend the estimate currently provided for Fiscal Year 2009 represents the Fiscal Year 2010 estimate until more reliable data becomes available.